



Office of the City Auditor

Fleet Asset Management Report No. 0407C

April 11, 2005

Procedures are sufficient to adequately safeguard the City's fleet of vehicles and parts supply. With compensating controls designed to provide more timely information, we recommend eliminating the requirement for an annual inventory. To enhance the controls over fuel consumption, we recommend development of written procedures for the monthly reconciliation of fuel purchased.

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April 11, 2005

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is a report on Fleet Asset Management. Staff in Fleet were very cooperative during our audit and we would like to thank them for their assistance. We would also like to thank the staff of the Accounting Division for their assistance in the completion of this audit.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

Cheryl Lee Barcala

Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP
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EXECUTIVE SUMMARY

An audit of the City's asset management system was included on the 2002/03 Audit Plan for our Office and was reaffirmed by the audit committee in December 2004. The purpose of the work was to determine if controls are in place to provide reasonable assurance that City vehicles and equipment are adequately safeguarded.

The City maintains a fleet of vehicles and equipment as a function of the various activities associated with City government. In early 2003, City management developed new procedures for the acquisition, disposal, and tracking of these assets. This audit was initiated to verify compliance with the new Administrative Regulations (ARs) and ensure that a satisfactory system of internal control exists to adequately safeguard these assets.

We found that the current control system effectively monitors the purchases of new and replacement vehicles, disposal of assets no longer needed, and the ongoing existence of assets. Minor issues outlined in this report address the need to clarify language in regulations as to what exactly falls under the definition of a vehicle and the need for written procedures on how to complete monthly fuel reconciliations and the timing for calibration of fuel pumps.

As well, we recommend reconsideration of the requirement for an annual physical inventory of assets and the parts supply room. Systems put in place by Fleet Management have created a continuous inventory process. Reports track fuel usage, repairs, and preventative maintenance. Each day the Parts Room staff complete a blind inventory of a portion of the parts supply, effectively inventorying the entire Parts Room over the course of the year. Exception based verification of equipment not inspected during the year and monitoring of the variances reported as a result of the daily inventories would be sufficient to identify potential problems.

The Action Plan with management's proposed plan of action is on the following page.

ACTION PLAN

No.	Recommendations and Management Response
1.	Require all purchases of vehicles and equipment, ultimately the responsibility of Fleet to maintain and/or replace, to be submitted to Fleet for acquisition so that the new vehicle or equipment can be included into projections of workload and budget.
	<p>Management Response: Concur - Fleet will coordinate with Purchasing so that all vehicle/equipment purchases are subject to Fleet review and approval before a purchase order is issued.</p> <p>Responsible Party: Danny Johnson Completed By: 04/30/05</p>
2.	Remove the requirement for an annual inventory of vehicles and equipment tracked by Fleet and replace it with a requirement for Fleet staff to identify any vehicle or piece of equipment not brought in for service during the last fiscal year and physically verify that the item is still in the possession of City staff.
	<p>Management Response: Fleet agrees with the recommendation for removal of the annual inventory of vehicles. Fleet will ensure that all fleet inventory is verified twice annually. Fleet will make recommendations to the City Manager for revisions to AR 226 to address this recommendation.</p> <p>Responsible Party: Danny Johnson Completed By: 06/30/05</p>
3.	Eliminate the requirement for an annual parts room inventory and replace it with a requirement for the Parts Room to conduct daily counts of a portion of the parts inventory sufficient to ensure that all parts are counted at least annually. Include a requirement for independent verification of the inventory when variances exceed a pre-established norm.
	<p>Management Response: Fleet concurs with this recommendation and will draft proposed revisions to AR 226 to include provisions for a cyclic Inventory of the parts room and an agreed upon year-end report to Financial Services.</p> <p>Responsible Party: Danny Johnson Completed By: 05/31/05</p>

No.	Recommendations and Management Response
4.	Require the documentation of the reconciliation process for fuel consumption, the minimal acceptable time between fuel pump calibrations, and the point at which variances in the monthly reconciliation should be investigated.
	<p>Management Response: Concur - Fleet has added section 6 to the Fleet Standard Operating Procedure Policy # 03-1002, Effective Date: May 1, 2004. Section 6 addresses the recommendation and establishes a trigger point and reporting responsibilities.</p> <p>Responsible Party: Danny Johnson Completed By: 04/30/05</p>
5.	Document the procedures to be followed when circumstances require the removal of a vehicle that was totaled.
	<p>Management Response: Concur - Fleet has initiated a procedure to be used by Fleet and Risk Management to insure that the proceeds from the sale of a damaged vehicle declared to be a total loss are credited to the proper account.</p> <p>Responsible Party: Danny Johnson Completed By: 04/30/05</p>

BACKGROUND

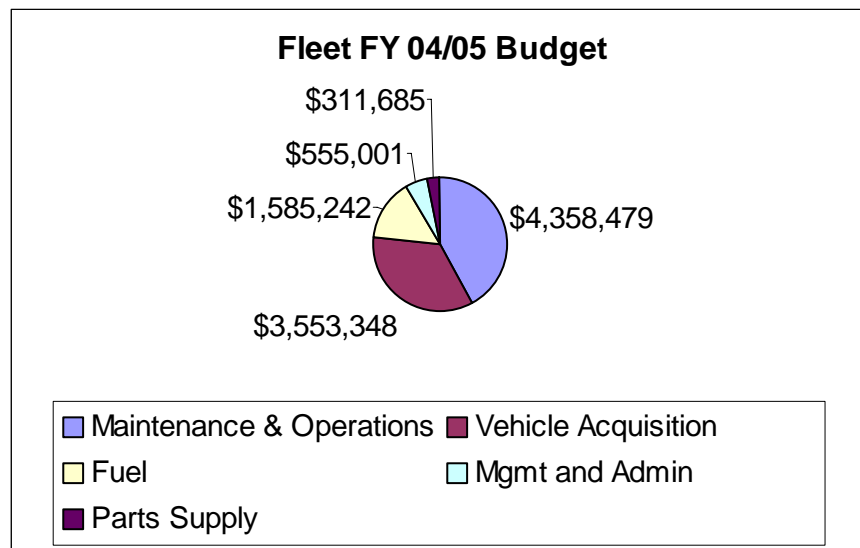
The Fleet Division of Municipal Services (Fleet) is responsible for meeting the transportation needs of Scottsdale City government by:

- Acquiring, preparing, and disposing of City-owned vehicles.
- Administering vehicle fuel operations.
- Providing vehicle maintenance and repair services.

This responsibility requires Fleet staff to track and service approximately 1,000 pieces of equipment ranging from passenger vehicles and light duty trucks to heavy machinery such as Solid Waste trucks, fire response vehicles, backhoes, tractors, and other equipment used throughout the City. The Division is operated as an internal service fund with the cost of services recovered through rental and maintenance/operation rates based on the equipment provided.

Organizational Structure and Budget

A Fleet Director, reporting directly to the Municipal Services General Manager, manages the Division. The Division budget for fiscal year (FY) 04/05 is \$10,363,755, which is allocated as follows:



SOURCE: City FY 04/05 Budget Book.

Within the Division, activities are broken out into three work units (Fleet Management Administration, Fleet Maintenance & Operations, and Fleet Parts Supply) and two program areas used to track expenditures related to fuel and

vehicle acquisition. The following sections provide an overview of each specific cost center.

Fleet Management provides general supervision for the Division. Responsibilities include preparation of budgets and ten-year forecasts of fleet rates and acquisitions, monitoring overtime and monthly expenditures, and processing purchase requests. The budget for this cost center is \$555,001, of which \$348,185 is allocated to personal costs. In addition to the Fleet Director, four other positions are assigned to the cost center (Citizen Service Representative, Equipment Coordinator, Fleet Coordinator, and Fleet Systems Coordinator).

Work objectives for FY 04/05 include finalizing a new fleet rate structure that captures actual costs per repair and maintaining a training program that provides employees with 40 hours of training per year. Output is measured by comparing the number of vehicles to the Division budget and number of authorized positions. In FY 01/02, the ratio of vehicles to Division employees was 21; by FY 04/05, this ratio improved to 24 vehicles per employee. Correspondingly, in FY 01/02, the ratio of vehicles to budget was \$7,332; for FY 04/05, this ratio improved to \$6,960.

Fleet Maintenance & Operations is responsible for preventative maintenance and repairs. A staff of 29 mechanics, one service worker (entry level mechanic), two service writers, two crew chiefs, and a maintenance superintendent are divided into two work shifts. The FY 04/05 adopted budget for this center is \$4,358,479. Of this amount, the majority is the cost associated with parts and supplies for vehicle maintenance. About \$2,000,000 is allocated for personal services and another \$500,000 is allocated for contractual services.

Work objectives for FY 04/05 include continuing the development of time standards for standard repair jobs and increasing the percentage of staff with two or more Automotive Service Excellence (ASE) certifications to 70 percent. Output is measured through the ratio of direct labor time compared to total time available. The goal is to have 70 percent of all available hours spent on direct labor. The desired outcome is two-fold: 1) maintain 97 percent equipment availability and less than 15 vehicles down per day and 2) utilize 65 percent of available labor hours for preventative maintenance and scheduled repairs identified as a result of preventative maintenance efforts.

Fleet Parts Supply is responsible for the purchasing and inventory functions necessary for Fleet operations. The FY 04/05 budget is \$311,685, primarily for staff (two equipment parts specialists, two Sr. equipment parts specialists, and one parts supervisor).

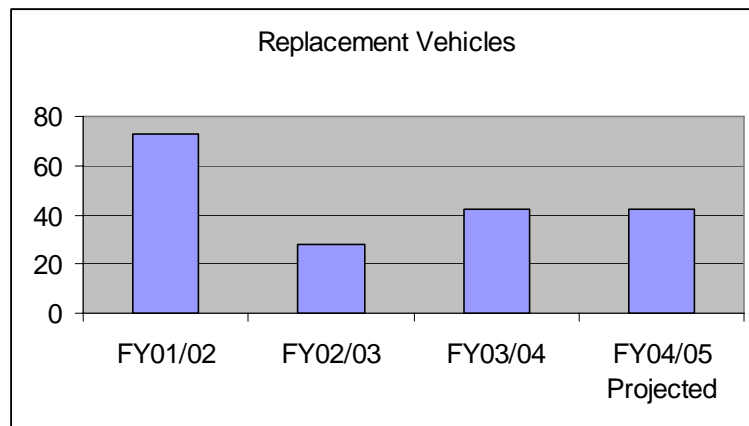
Work objectives for FY 04/05 are: 1) ensure that inventory shrinkage is less than 1 percent and 2) maintain sufficient inventory so that at least 70 percent of requests for parts are filled on demand. Output is measured on the percent of the cost for parts as a ratio of the total work order (43 percent is the goal) and the percentage of parts available when needed (93 percent is the goal). The desired outcome is to turn inventory 4 times per year to avoid keeping parts on hand that are not needed.

Fuel is the cost center for fuel purchases needed for City operations. The FY 04/05 budget for gasoline, diesel, and other fuels is \$1,585,242. Estimated average per gallon cost for FY 04/05 is \$1.48 for unleaded gas and \$1.35 for diesel. One of the goals associated with the consumption of fuel is to increase the percentage of vehicles with alternative fuel capacity from 48 percent to 50 percent and to increase the use of alternative fuels by 5 percent.

Vehicle Acquisition is the cost center for acquisition and disposal of vehicles and the FY 04/05 budget is \$3,553,348 for replacement vehicles. Fleet objectives for FY 04/05 are: 1) maintain a delivery time of no more than 180 days from order placement to receipt and 2) put vehicles in service within 14 days of a request. The goal is to meet these objectives 80 percent of the time.

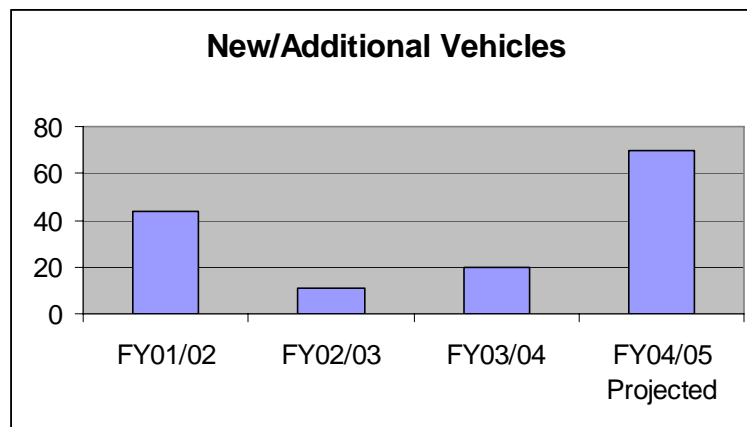
Trends

Changes in 2003 moved the role of the Division from an acquisition function to that of a centralized oversight function. Appropriate Fleet staff must now review requests for new or replacement vehicles/equipment to ensure that the right equipment for the intended use is obtained. Other changes increased the years of service and miles driven before a vehicle is considered for replacement. As shown in the chart below, this has resulted in a decrease in vehicle replacements.



SOURCE: Fleet records.

Fleet staff has been active in the preparation for the new Municipal Fire Department with the planning, identification, and ultimate purchase of approximately \$3.5 million of equipment for this department. Additionally, Public Safety Tax revenue has allowed for the purchase of 31 additional Police vehicles in FY 04/05. As a result, though the number of new/additional vehicle purchases decreased after FY 01/02, an increase is projected during FY 04/05.



SOURCE: Fleet records.

Governing Regulations

Boundaries for the acquisition and use of City owned or leased vehicles are set out in AR 125. Procedures for tracking the assets and monitoring parts supplies are set out in AR 226. Both were approved in 2003.

AR 125 requires:

- All requests for additional equipment must be submitted through the annual budget review process and include a review by Fleet management.
- The requesting department must define their work related vehicle/equipment requirements and submit this information to Fleet for review and concurrence.
- Fleet must draft specifications for the purchase of the vehicle/equipment and forward the specifications to Purchasing for procurement.
- Requests for vehicles/equipment made during the course of the fiscal year and not previously approved as part of the budget process must be submitted to the City Manager for approval.

AR 226 specifies:

- Preparing and maintaining a current list of machinery, equipment, and vehicles.
- Updating the list each time there is a change in inventory.
- Providing detailed information about the inventory to Financial Services prior to year-end.
- Performing, at a minimum, a full physical inventory at least once a year.
- Auctioning assets that are saleable.

AR 226 also requires:

- Preparation and maintenance of a current list of supplies on hand.
- Updating the listing each time there is a change in inventory.
- Performing a full physical inventory at least once a year. Physical inventories are required for supplies maintained internally and for service vehicles that leave City property.
- Safeguarding of supplies on service vehicles.
- Reconciliation of the physical inventory of supplies to the general ledger at least once a year.
- Reconciliation of the amount of fuel on hand to the amount received and consumed at least once a month.

Information Management Systems

Fleet Management uses two computerized information systems to monitor operations. The first system, Fleet Management System (M4), consists of modules that are used to manage inventory of both vehicles/equipment and parts/supplies, assign work, track preventative maintenance, and maintain a history of each vehicle/equipment maintained by Fleet.

A second system is used to monitor and manage use of the City's fuel pumps. Each vehicle is assigned either a key or a sensor that activates the fuel dispensers. Prior to pumping, the driver must enter the vehicle's odometer reading if activating the dispenser with a key; if a sensor is installed in the vehicle, the mileage is electronically transmitted. The system interfaces with M4, allowing each vehicle's fuel use to be monitored and data such as vehicle mileage and average miles per gallon to be tracked.

Vehicle Inventory

Vehicles/equipment are assigned one of four inventory classifications. These are:

“A” – Active vehicles currently assigned to a department. As of January 20, 2005, there were 980 active vehicles.

“D” – Waiting for disposal. This includes vehicles that have been taken out of their primary assignments and are currently being used at the Police driver training obstacle course, the airport grounds, and WestWorld as well as vehicles being prepared for auction. As of January 20, 2005, there were 84 vehicles flagged for disposal.

“I” – Inactive. This includes vehicles that have been purchased but have not yet been put into service. As of January 20, 2005, there were 15 vehicles ready to be used to replace existing vehicles.

“S” – Sold. This includes all vehicles that have been sold or otherwise retired and are no longer in the City’s possession. M4 does not allow vehicles to be deleted from the database.

SCOPE AND METHODOLOGY

The objectives of this audit were to:

- Determine if controls are sufficient to ensure that:
 - Purchases of new and replacement vehicles are authorized and acquired according to established procurement rules.
 - Vehicles are appropriately disposed of when no longer needed in accordance with established rules.
 - Fleet is adhering to procedures set out in ARs governing Capital Asset Management.
- Verify the controls are sufficient to ensure that:
 - Vehicle acquisitions and disposals will be reflected on M4, supported by appropriate documentation, and accurately reflected on the fixed asset schedule maintained by Financial Services.
 - Expenditures related to the acquisition of vehicles will be charged to the correct accounts and revenues from the sale or disposal of vehicles will be appropriately recorded.
 - Vehicles will be adequately safeguarded against misappropriation.

The scope of the work was limited to Fleet policies and practices enacted after the passage of AR 226, which was approved on June 24, 2003, and became effective as of July 1, 2003.

To complete the work, we reviewed Scottsdale Revised Code and applicable ARs to gain an understanding of requirements pertaining to Fleet Management.

To gain an understanding of current practices and concerns, we conducted interviews with the Fleet Director, the Fleet Systems Coordinator (position now open), the Fleet Equipment Coordinator, the Customer Service Representative, and the Parts Supervisor. We also reviewed reports from a series of Fleet-related audits conducted in 2001 and 2002 to gain an historic perspective of Fleet practices. Accounting staff from Financial Services were also interviewed regarding capital asset accounting procedures.

We reviewed vehicle files, monitoring tools, and the database used by Fleet to manage the vehicle inventory. Vehicle titles maintained by the City Clerk were examined, as were the capital asset records of the Accounting Division.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.* Survey work began in January and audit testing was completed in February 2005 with Eric Spivak conducting the work and Ramon Ramirez acting as liaison to the Accounting Division.

Objective 1: Determine if controls are sufficient to ensure that purchases of new and replacement vehicles are authorized and acquired according to established procurement rules.

Finding: Controls, if followed, are sufficient to ensure that purchases of new and replacement vehicles are authorized and acquired according to established procurement rules. Retention of documentation would improve the City's ability to evidence compliance.

Criteria: AR 125, approved and effective March 11, 2003, requires that requests for additional vehicles be made during the annual budget cycle. Fleet Management must approve the specifications prior to approval of the budget request. The purchase of a vehicle, not approved during the budget cycle, requires the approval of the City Manager.

Procurement and Acquisition Requirements - All requests for additional equipment must be submitted through the annual budget review process and include a review by the Fleet Management Division. The requesting department will define their work related vehicle/equipment requirement and forward that information to the Fleet Management Division for review and concurrence that the appropriate size and type of equipment has been identified to best perform the required service function. After receipt of the department requests, and approval through the budget process or the City Manager (if necessary), the Fleet Management Division will draft specifications for the purchase of the vehicles/equipment (those specifications will be for a basic vehicle). Options that can be perceived as unnecessary or luxurious will not be authorized. The specifications will be forwarded to the Purchasing Division for procurement at the lowest available price that meets those specifications.

Vehicle or equipment additions may become necessary during the course of a fiscal year. Requests for these additions must be submitted on forms available from the Fleet Management Division along with identifying an authorized budget source to fund the proposed acquisition. Any "mid-year" additions to the total number of vehicles in the fleet must have the specific approval of the City Manager.

SOURCE: AR 125.

To evidence compliance, files for each vehicle and piece of equipment obtained by the City since March 2003 should document that:

1. A purchase request was submitted through the annual budget review or was approved for 'mid-year' purchase by the City Manager.
2. Fleet approved the vehicle specifications.
3. A purchase order was executed to initiate purchase of the vehicle.

Condition: Purchasing procedures for vehicles and equipment maintained by Fleet have undergone several modifications in the last two years. Initially, all vehicle purchases, including the purchase of replacement vehicles authorized by the annual budget request, had to be approved by the Municipal Services General Manager and City Manager. Current procedures now allow the Fleet Director to authorize the purchase of all replacement vehicles included in the annual budget request, if the purchase does not involve additional equipment or a vehicle upgrade. Authorization by the General Manager and City Manager is still required for additional vehicles, upgraded replacement vehicles, and purchases not approved as part of the annual budget request. Controls in place include:

1. Policy designating the minimum number of years a vehicle must be in-service in addition to a minimum number of miles that must be driven before a vehicle will be considered for replacement.
2. A list of vehicles slated for replacement and replacement costs submitted during the budget process.
3. The use of an Authorization to Purchase form submitted by the Fleet Equipment Coordinator to the operating department when it is time to replace a vehicle that has been approved for replacement as part of the budget process.
4. The Fleet Equipment Coordinator submitting a pre-requisition authorization form to the Fleet Director if the operating department agrees to replace a vehicle without upgrades or additional equipment. The Fleet Director returns the signed pre-requisition authorization form to the Fleet Equipment Coordinator who maintains the form as purchase approval authorization.
5. The Purchasing Division not executing a purchase order that involves funds from the Fleet vehicle/purchase fund without evidence that Fleet approved the purchase.

If the operating department returns the equipment purchase form indicating that upgrades are wanted or if the purchase of new/additional equipment does not replace existing equipment, the process requires:

1. The Fleet Equipment Coordinator to add Fleet's input to the Authorization to Purchase form, which requires documentation of the rational for the upgrades and/or additional equipment [or new vehicle if not a replacement vehicle].
2. The Authorization to Purchase form to be submitted to the Fleet Director, Municipal Services General Manager, and then the City Manager.
3. Upon approval of the City Manager, a purchase order to be executed.
4. The form to be maintained by the Fleet Equipment Coordinator for documentation purposes.

In the event that Fleet and the operating department do not agree as to requested upgrades and/or additional equipment, both sides present written rationales to the City Manager who then makes a final decision.

We reviewed the files of 44 vehicles looking for documentation of required approvals. In 35 cases, documentation was retained. In 3 situations, however, the files did not contain written documentation from the requesting department outlining the use for the vehicle as a means of facilitating a discussion of the specifications that would be used to drive the decision of the type of vehicle purchased. As well, written approval by the Municipal Services General Manager or the City Manager was not evident. Each vehicle was a new acquisition and, according to the regulations in place at the time of the purchase, would have required this information and approval.

These transactions were:

- A 2003 Ford Escape purchased for the Water Resources Department.
- A 2004 Chevrolet Impala purchased for the Fire Chief. This vehicle was later transferred to the Police Department when other arrangements were made for the Fire Chief.
- A 2004 Clubcar cart for WestWorld.

In six instances, files did not contain documentation that the purchase was authorized by Fleet. In each instance the request was initiated by the user department and not submitted to Fleet for acquisition. The six purchases included:

- Four 2004 Supreme Supro3Trolleys purchased by the Transportation Department with grant funding.
- One 2004 Smart VMS 232KA radar trailer purchased by the Transportation Department with grant funding.
- One 2003 Thompson 6JSC-081 trailer-mounted pump purchased by the Water Department.

Cause: According to staff, specific circumstances warranted the purchase of the Ford Escape, Chevy Impala, and Clubcar without the customary documentation of specifications and approvals. Vehicles purchased by Transportation were approved by Council action. The Water Department's pump was originally planned for a fixed location and then changed to a trailer-mount configuration.

Fleet was not informed of the decisions to purchase the Trolleys, radar trailer, and trailer-mounted pump. Regulations do not specifically address the requirement for all vehicle and equipment purchases to go through Fleet.

Effect: Failure to review departmental needs and vehicle specifications may result in the purchase of a vehicle that is not appropriate or will not satisfy the needs of the organization (i.e., the vehicle purchased for the Fire Chief that was ultimately moved to the Police Department).

Failure to submit requests for equipment and vehicles to Fleet for acquisition limits the information available for projecting staffing needs. When departments can initiate purchases of items such as trolleys and trailers, Fleet may not be aware of the acquisition until the unit shows up to be received. As a result, projections for staffing and other budgetary needs may not reflect sufficient funds to undertake the maintenance responsibilities associated with the new equipment.

Recommendations: Regardless of the funding source, require all purchases of vehicle and equipment, ultimately the responsibility of Fleet to maintain and/or replace, to be submitted to Fleet for acquisition so that the new vehicle or equipment can be included into projections of workload and budget.

Objective 2: Determine if controls are sufficient to ensure that vehicles are appropriately disposed of when no longer needed in accordance with established rules.

Finding: Controls are sufficient to ensure that vehicles, no longer needed, are appropriately disposed of.

Criteria: Section P2-210.2 of the City's Procurement Code requires that proceeds from items auctioned that were originally purchased with Fleet funds shall be identified on the auction records and deposited in the Fleet account.

AR 226, Section 5, requires Fleet to hold auctions for saleable assets and that a detailed listing of the sold items accompany the payment when delivered to the City Cashier. The detailed listing serves as authority to remove inventory from the Fleet listing and from the Financial Services list of capital assets.

Condition: We tested 20 vehicles and found that all had been disposed of in accordance with established rules. The control structure provides assurance that all appropriate parties are made aware of the decision to dispose of a vehicle and that detailed documentation is maintained. Funds received from the disposal of vehicles were deposited in the proper account.

Cause: Implementation of appropriate control activities including:

- Guidelines for when vehicles should be replaced. These include in service for a set number of years or driven for a specific number of miles. Exceptions require written justification.
- Monthly notification to appropriate parties when vehicles are to be sent for auction. Notification includes the number of accumulated miles and the minimum bid price.
- Notification, when the vehicle is sold, of the auction outcome, including selling price, vendor's commission, other expenses, and the net proceeds.
- Submission, by the vendor of a "consignor settlement" statement listing each of the vehicles sold on behalf of the City, the selling price, commission price, the City's net proceeds, and a copy of the buyer invoice.
- Submission of the documentation supporting the payment to the City Cashier. This documentation is retained as support for the deletion of the asset from the capital asset list.

Effect: Reasonable assurance that vehicle disposals will be timely reflected on inventory records and revenue appropriately deposited.

Recommendations: None.

Objective 3: Determine if controls are sufficient to ensure that Fleet is adhering to procedures set out in AR 226 governing Capital Asset Management.

Finding: Controls are sufficient to ensure that Fleet adheres to procedures. The requirement for a full annual inventory needs review in light of compensating controls that continuously monitor the existence of vehicles and the inventory of parts.

Criteria: Section 5 of AR 226 requires Fleet to:

1. Prepare and maintain a current list of machinery, equipment, and vehicles.
2. Update its inventory listings each time there is a change in inventory.
3. Account for their inventory in a separate form and provide detailed information to Financial Services prior to year-end.
4. Determine the frequency of physical inventories, but, at a minimum, perform a full physical inventory at least once a year.
5. Hold auctions for assets that are saleable. A detailed listing of the sold items is to accompany the payment when delivered to the City Cashier. The detailed listing serves as authority to remove inventory from the Fleet listing and also the Financial Services list.

Section 5 also requires that Fleet adhere to the following requirements governing the inventory and use of supplies:

1. Prepare and maintain a list of supplies on hand.
2. Update the listing each time there is a change in inventory.
3. Determine the frequency of physical inventories, but, at a minimum, perform a full physical inventory at least once a year. Physical inventories are required for supplies maintained internally and for service vehicles that leave City property.
4. Provide for the safeguarding of supplies on service vehicles.
5. Reconcile physical inventory of supplies to general ledger at least once a year.
6. Reconcile the amount of fuel on hand to the amount received and consumed at least once a month.

Condition: Fleet prepares and maintains a current list of machinery, equipment, and vehicles and the inventory listing is updated each time there is a change in inventory. Inventory information is provided to Financial Services when acquisitions or disposals occur. Valuation of the inventory assigned to

Fleet is available at any point in time through a query to the computerized records.

While Fleet does not hold auctions for the disposal of vehicles, the required process (auction) is followed through the use of contracted services of an auction house. Lists of vehicles disposed of through this vendor are provided to Financial Services as support for the payment received.

Fleet also prepares and maintains a current inventory of supplies on hand. Real-time adjustments when parts are pulled for use or received for additions result in a current inventory list at any point in time. Procedures are such that a portion of the inventory is counted each day to verify the on-hand counts to the information on computerized records. On a monthly basis, the value reported on the Fleet Parts Supply database is compared to the supply value listed on the general ledger and the ledger is adjusted accordingly.

The amount of fuel on hand is reconciled to the amount received and monthly consumption records.

Specific controls that assure compliance with AR 226 include:

1. Work orders for repair will not be generated and access to City fueling stations will not be provided for a vehicle or piece of equipment that is not assigned to the computerized inventory tracking system.
2. Supplies will not be released from the Parts Room without an active work order. When the request is processed, the system automatically reduces the volume on hand and records the cost against the vehicle record for tracking the cost of repairs.
3. When a vehicle is assigned to an operating department, the Fleet Equipment Coordinator completes a Vehicle Finance Sheet. This form is sent to the Accounting Division in Financial Services to trigger the inclusion of the vehicle on the capital asset records. Annually, the capital asset list is reconciled to the computerized records maintained by Fleet.
4. Annually, a Financial Service representative participates in a full count of the parts on hand for reconciliation to the computerized records. Additionally, a select number of parts are counted and compared to recorded amounts each day. Inventory reports are submitted to Financial Services on a monthly basis and monthly journal entries are prepared to adjust for known differences.
5. Service vehicles have locking supply cabinets and the value of supplies carried at any one time is limited. Each week the mechanic assigned to the service vehicle mechanism orders only those parts and supplies that he believes are necessary to complete the week's work orders. Parts are then

tracked by work order when removed from the service vehicle and used for repair.

6. The Customer Service Representative assigned to Fleet performs a monthly reconciliation of the amount of fuel on hand to the amount received and consumed at least once a month. However, reconciliation procedures are not documented. In FY 03/04, monthly variances ranged from 347 gallons to 2,137 gallons per month and totaled 13,053 gallons for the year. This equates to an annual variance of 1.5 percent of the total fuel purchased. Minor pump calibration discrepancies and the expansion of gas in holding tanks during periods of rising temperature may attribute to and/or account for the variance.

Under the current control environment, staff in Fleet does not perform an annual physical inventory. Instead, on a yearly basis the Fleet Systems Coordinator reviews each vehicle's fuel use and maintenance history available through computerized records. However, certain pieces of equipment do not require fueling and are scheduled to receive preventative maintenance just once a year. Therefore, this process provides limited assurance that an annual verification would be made for any vehicle or piece of equipment identified as not receiving fuel or maintenance during the year.

Additionally, the performance of both a continuous inventory count and an annual inventory of parts and supplies is redundant.

Cause: Acquisition and implementation of a computerized tracking system that ties records on vehicle purchases, work orders, and fuel consumption provides management with current information necessary to track inventory.

Current requirements for tracking inventory and supplies do not incorporate compensating controls such as continuous inventory counts and monitoring reports available that would reduce the need for annual inventories.

Effect: The City has management reports that track the inventory. Compensation controls are sufficient to limit the risk associated with not conducting an annual inventory. Requiring an annual inventory of the Parts Room results in redundant controls that serve no additional purpose.

Recommendations: Remove the requirement for an annual inventory of vehicles and equipment tracked by Fleet and replace it with a requirement for Fleet staff to identify any vehicle or piece of equipment not brought in for service during the last fiscal year and physically verify that the item is still in the possession of City staff.

Eliminate the requirement for an annual parts room inventory and replace it with a requirement for the Parts Room to conduct daily counts of a portion of the parts inventory sufficient to ensure that all parts are counted at least annually. Include a requirement for independent verification of the inventory when variances exceed a pre-established norm.

Require the documentation of the reconciliation process for fuel consumption, the minimal acceptable time between fuel pump calibrations, and the point at which variances in the monthly reconciliation should be investigated.

Objective 4: Verify that controls are sufficient to ensure that vehicle acquisitions and disposals will be reflected on M4, supported by appropriate documentation, and accurately reflected on the fixed asset schedule maintained by Financial Services.

Finding: Controls are sufficient to ensure that vehicle acquisitions and disposals will be reflected on M4, supported by appropriate documentation, and accurately reflected on the fixed asset schedule maintained by Financial Services.

Criteria: Records for inventory owned by the City should be correct. Establishment of an adequate internal control environment increases the potential for accuracy. The United States General Accounting Office (GAO), "Standards for Internal Control in the Federal Government," provides the following guidance regarding internal control activities:

Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. Control activities occur at all levels and functions of an entity. Control activities include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records that provide evidence of execution of these activities as well as appropriate documentation.

Condition: Fleet inventory records are current and reconcile to the inventory reflected on financial records. We found no discrepancies between the inventory list and the capital asset list. We also tested files for appropriate documentation and out of a random sample of 44 files we found no exceptions. For each vehicle, we could locate the title at the City Clerk's Office. Finally, we tested 20 random vehicles reported as disposed and found that disposal was appropriately documented both in the Fleet vehicle files and the records maintained by Financial Services.

Cause: Implementation of appropriate control activities.

Effect: Information regarding number of vehicles on hand and valuation of those assets is likely to be correct.

Recommendations: None.

Objective 5: Verify that controls are sufficient to ensure that expenditures related to the acquisition of vehicles will be charged to the correct accounts and revenues from the disposal of vehicles will be appropriately recorded.

Finding: Controls are sufficient to ensure that expenditures related to the acquisition of vehicles are charged to the correct accounts and revenues from the sale or disposal of vehicles are appropriately recorded.

Criteria: Expenditures should be recorded in the correct account:

- Replacement vehicles charged to 700-10620-54710.
- New acquisitions charged to Capital Outlay of motor vehicles.
- Operating expense is then to be charged to the correct cost center based on vehicle assignment.

Revenue from the sale of vehicles should be deposited in 700-10600-48502 and revenue from insurance recoveries to 700-10600-48602.

Condition: We tested the recording of transactions related to the acquisition of 44 vehicles. Each transaction was recorded correctly. We also tested the revenue associated with the disposal of 20 vehicles and found no exceptions.

We did, however, note issues with the recording of revenue for totaled vehicles. Individuals involved in the recording of the transactions have been trained on the correct account to use but written procedures have not been developed to ensure that the information will be available for training purposes should changes require assignment of job duties to another employee.

Cause: Staff involved in recording transactions know the appropriate accounts to use.

Effect: Financial records will correctly reflect the nature of the transaction.

Recommendations: Document the procedures to be followed when circumstances require the removal of a vehicle that was totaled.

Objective 6: Verify that controls are sufficient to ensure that vehicles will be adequately safeguarded against misappropriation.

Finding: Current controls ensure periodic review of most of the vehicles and equipment but are not sufficient to ensure that each vehicle or piece of equipment on the Fleet inventory list will be verified as to continuing existence on an annual basis.

Criteria: To guard against vehicle misappropriation, controls should ensure that the ongoing existence of a vehicle is verified periodically. According to the AR on Capital Assets, this periodic verification is to occur through an annual physical verification of the inventory.

While not addressed in any administrative regulation, separation should be maintained from the area with access to the vehicle and the documentation that would allow transfer of ownership.

Condition: Fleet does not conduct an annual physical inventory of vehicles and equipment. Instead, the Division relies on scheduled preventative maintenance to ensure that vehicles and equipment continue to be under the control of City staff. As well, an annual review of each vehicle's usage records is conducted to evaluate expenses associated with vehicle maintenance and repair. Day-to-day responsibility for ensuring ongoing existence and appropriate use of the vehicle or equipment rests with the user department.

We reviewed records related to 50 vehicles and pieces of equipment that were identified by Fleet as not having received preventative maintenance within seven days of the required time. We determined that the current practice is not sufficient to ensure that vehicles or equipment will be brought in. One piece of Parks equipment has yet to be in for service even though the equipment was due for maintenance in August. Two other pieces of equipment and one vehicle were scheduled for maintenance in November and December but had not been brought in by the end of fieldwork. Two additional pieces of equipment were not brought in until more than 90 days had elapsed. Adherence to the requirement for preventative maintenance is necessary if this process is to be a compensating control for the requirement of an annual physical inventory.

To ensure that titles on vehicles are appropriately safeguarded, we tested 40 vehicles classified as active and 71 vehicles identified as ready for disposal. All titles are accounted for. However, many pieces of equipment do not require motor vehicle titles.

Cause: Fleet staff have not placed importance on the need to annually inspect each vehicle or piece of equipment listed on the Fleet Inventory.

Effect: Failure to periodically verify ongoing existence of vehicles and equipment increases the potential for the loss or misappropriation of an asset to go undetected. For equipment that does not get used frequently, departmental management may even be unaware that the equipment cannot be located.

Recommendations: As recommended in conjunction with Objective 3, implement procedures sufficient to ensure that each vehicle and piece of equipment reflected on the Fleet inventory list is physically inspected at least annually.

APPENDIX A

MANAGEMENT RESPONSE

TO: Cheryl Barcala, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

FROM: Danny L. Johnson, CAFM
Fleet Director

DATE: April 11, 2005

Re: Response to Fleet Asset Management AUDIT NO. 0407C

I would like to thank the City Auditor and her staff for their professionalism in conducting the audit and presenting the findings. The results of the audit will allow us to refine our procedures to better manage the assets entrusted to us by the City's taxpayers.

The attached action plan is submitted in response to your findings. Thank you for the opportunity to respond to this audit and I look forward to discussing any issues you may have concerning the response.